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## The State and Prospects of the Multilateral Trade Negotiations

by Jürgen Kühn, Bonn \*

**In the fifties and sixties GATT was a motive power for worldwide trade liberalization which caused exports and imports to increase constantly at a higher rate than the production of goods. If this positive trend is to last, the course must be laid now for progressive removal of the trade barriers.**

In the autumn of 1976 the multilateral trade negotiations entered a crucial phase. At the summit conferences of Rambouillet and Puerto Rico the heads of state and government of the largest trading countries in the world had manifested their firm resolve to speed the negotiations and complete the present GATT round in 1977. The negotiators in Geneva were thus given a deadline which will determine the rhythm and intensity of their work in the next months.

In addition to a large number of technical problems there are several fundamental issues calling for final decisions which can only be taken on the political level. Even if there are temporary impediments such as the US election, this need hardly hamper the delegations in Geneva in their practical work. The negotiations proper in the framework of GATT are going on with clockwork precision. The meetings of a dozen groups and sub-groups of the GATT trade negotiating committee follow each other week after week. The public hears very little about the results of this work. Most of the negotiations are of a confidential nature. That is unavoidable because they deal with concrete facts which have an impact on the general foreign trade policies of the participating states as well as the individual decisions of industrialists and merchants. Nevertheless there is considerable interest in any information about the progress of the GATT round which has assumed importance far beyond the economic sphere. It may be useful to attempt to draw up an interim balance-sheet and to trace the direction of future advances as the negotiations move towards the decisive stage.

The Tokyo round which opened in September 1973, just before the oil crisis broke, differs from the previous six GATT rounds mainly by the num-

ber of participants and the range of subjects for negotiation. Fifty-one states took part in the Kennedy round, until then the largest GATT negotiating forum. In the Tokyo round 96 countries are taking part — about two-thirds of them developing countries. All states are in principle at liberty to participate in the GATT negotiations, so that China or the Soviet Union could also attend. The subjects of the Tokyo round extend beyond tariff rates, which have always been the core of GATT negotiations, to non-tariff measures, safeguard clauses, particular sectors, agriculture and tropical products. The new round thus covers practically all obstacles to international trade which has indeed in the recent past been hampered by non-tariff measures more effectively than by tariffs.

### Aims of the Negotiations

Basically the GATT negotiations are aimed at expanding the international trade and ensuring additional advantages for the trade of the developing countries. Special attention to the interests of the developing countries is thus for the first time given equal status with the traditional GATT concept of general world trade liberalization. This indicates recognition of the growing importance of the Third World countries which are pressing for more favourable arrangements also in GATT and will no longer be content with the principle of general equality of treatment. The adaptability of GATT to the changed conditions in the world economy is one of the elements which made it so attractive in recent years. The club of the 23 founder-members has developed into a global negotiating forum which is today the basis of the international trade relations between

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industrialized, developing and state trading countries. There is no alternative to multilateral trade negotiations. If — similar to the fifties and sixties — more progress is to be made on a world-wide scale towards the elimination of the obstacles of trade, the GATT round is in duty bound to succeed.

### **Tariffs**

The opinions on the effects of tariffs on world trade have lately been at variance. Critical observers think that currency fluctuations have a much greater impact on the international exchange of goods than the tariffs which are in any case, generally speaking, relatively low. Other experts argue on the contrary that in regard to many industrial goods the tariffs still have a protectionist effect and constitute an undesirable additional cost element, especially under inflationary conditions. This aspect is the justification for the central role of the tariff negotiations in the Tokyo round. All participating countries are agreed that a new attempt must be made in GATT to lower the tariffs. The most important talking point is the method of the tariff negotiations. Are all participating countries to lower their tariffs by the same percentage rate or are there to be variable reductions for each country according to the level of the original tariff rates?

The negotiations to date have brought a definite tendency towards world-wide tariff harmonization to light — in other words, the high rates are to be cut more drastically than the low rates. All the large trading countries have submitted their own ideas about the best method of reducing tariffs in GATT. These conformed of course in each case to the balance of interests of the country concerned. The negotiations in the next months will have the aim of reaching final agreement on a general tariff cutting formula which will be the basis for concrete tariff reductions. If the example of the Kennedy round, the last previous set of GATT negotiations in 1963–67, is followed, the industrial tariffs may be cut by about one-third on average as a result of the Tokyo round.

### **Non-Tariff Measures, Safeguard Clauses and Sector Negotiations**

Negotiations on non-tariff measures are an unexplored ground for GATT. In view of the increasingly-felt influence of non-tariff measures on world trade it was impossible to leave this large area outside the multilateral trade negotiations of the Tokyo round. The foundations for a number of international codices have been laid by preparatory work which went on for a number of years. The greatest advances have been made

in the course of the efforts for an international regulation concerning technical trade barriers. The draft code on norms contains numerous commitments to an as liberal as possible application of industrial norms. There are, besides, provisions concerning mutual information and consultation. There is a similarly detailed GATT draft about customs valuation. Fundamental differences however still persist in this field which require further clarification. Another objective is an international code relating to government procurement. Tenders are in future as far as possible to be invited for government contracts without discrimination between domestic and foreign suppliers. Preparatory work for this code is done by OECD in Paris, but the results of these negotiations are to be included in the multilateral trade negotiations when the basic principles have been agreed.

Considerably more difficulties are encountered in the sphere of subsidies and countervailing duties. At the core of the discussion about these is the attempt to devise a supplementary GATT code for countervailing duties as has already been done in the field of anti-dumping duties. There are differences of view, especially about the definition of the term subsidy and the question whether a countervailing duty may only be imposed if not only a subsidy is granted but injury is caused. The negotiating partners are largely in agreement that subsidies and countervailing duties are fields in which special and differentiating treatment of the developing countries is possible and appropriate. The most difficult non-tariff problem is the removal of quantitative restrictions. GATT is planning here an attack on the hard core of restrictions which have for years withstood all liberalization efforts. The main task at this moment is to collect the necessary factual information. What legal or economic reasons are there for maintaining the restrictions? Can they be removed by coordinated action of all the states concerned?

The answer to these questions depends to a significant extent upon the form of the future safeguard arrangements in GATT. The Tokyo declaration stated expressly that an examination of the multilateral safeguard system with a view to the promotion of trade liberalization is one of the subjects of the GATT round. The negotiations are aimed at improving the international discipline in the application of the safeguard measures and more particularly at creating a more effective multilateral control. Other items for discussion are the questions of retaliatory measures and compensations in case safeguard measures are taken as well as the question of their selective application against the country which caused the increased imports.

Wider-ranging intentions are involved in the sector-by-sector approach. Here negotiations are to take place for the first time about all tariff and non-tariff trade barriers bearing on one whole economic sector. This method of negotiating is to make it possible in particular to achieve more far-reaching liberalization effects than were obtained by the traditional negotiating techniques. The aircraft sector could serve as an example of a sector exchange of concessions. One has of course to wait and see first what general negotiating rules will be agreed before separate negotiations begin in selected individual sectors. In view of the great interest in this novel negotiating technique extensive studies of individual economic sectors have, not surprisingly, been undertaken in GATT.

### **Agricultural and Tropical Products**

Many observers of the Tokyo round consider the agricultural talks to be the real test case of the GATT negotiations. In no other field can the difference between US and European interests be seen as clearly as in the agricultural sector. The American demand for liberalization of the world trade in agricultural products seems to run counter to the European thesis that the principles and mechanisms of the Common Agricultural Policy must not be called in question. As far as the agricultural negotiations are concerned, the discussion in Geneva has so far been confined to preliminary questions. The extensive subject matter for discussion has been identified and sorted out. But even these exploratory talks have clearly shown that both sides are fighting vigorously to guard the best starting positions and are, with this aim in view, willing to engage in protracted time-consuming procedural debates.

As an outcome of the discussions to date it is now certain that separate solutions are aimed at for major agricultural commodities like grains, meat and dairy products. The European Community advocates for grains, rice and sugar commodity agreements with floor and ceiling prices and multilateral coordination of national stockpiling policies as major elements. For dairy products it wants also to negotiate a commodity agreement, but one with floor and ceiling prices only. In regard to all other agricultural products consultations are taking place at present to identify the concrete trade problems and discuss possible solutions. The interest of the major agricultural exporting countries is plainly directed at the removal of import restrictions and elimination of the export subsidies. The European Community on the other hand advocates concerted discipline on the part of exporting and importing countries.

In suitable cases the European Community is willing to make adjustments in the use of its import mechanisms and to reduce import duties provided that the agricultural producer countries handle their exports in an orderly fashion.

In regard to tropical products there is evidence of substantial advances being made. All important industrialized countries presented lists of liberalization offers for the tropical products of the developing countries to the secretariat of GATT in the spring of 1976. An example of such an offer is the European Community's list of concessions which provides for tariff cuts, improvements of the generalized tariff preferences, removal of certain import restrictions and consolidation of excise duties for 150 agricultural commodities from developing countries. Among the favoured product groups which together account for a trade volume of about 1.8 bn units of account are coffee, tea, cocoa, vegetable oils and tobacco. It is intended to apply these concessions without reciprocity by the developing countries from January 1, 1977 already.

### **Safeguards for the Legal Status of the Developing Countries**

In view of the growing weight of the Third World in international economic discussions it does not come as a surprise that there is talk in GATT about how to give more consideration to the developing countries in the text of the agreement. The starting point of this debate are Brazilian proposals aimed at legal support for a more favourable treatment of the developing countries in GATT. The developing countries are no longer content with equality of treatment with the industrialized countries but are looking for preferential treatment differentiating in their favour. They can in this respect point to the ninth item in the Tokyo declaration which calls for improvements of the international framework for world trade.

The considerations of the developing countries are concentrated on such problems as most-favoured-nation treatment, restrictions for balance of payments reasons and reciprocity. One of the cardinal issues is whether the generalized tariff preferences should in future receive express legal recognition as an exception from the principle of most-favoured-nation treatment. So far GATT has granted a waiver in favour of the generalized preferences only subject to a number of conditions. The developing countries now wish stronger safeguards for the preferential arrangement in order to prevent a curtailment or withdrawal of the benefits. This could amount to a general exemption of the developing countries from the principle of most-favoured-nation treatment.

In the same direction points the further question whether the more favourable treatment is to be restricted only to the tariff sector or whether differential measures could also be applied in the non-tariff sphere. In regard to restrictions for balance of payments reasons the developing countries are interested in a special status: they would like to be more free to use such restrictions for themselves and at the same time want to be exempted from restrictions by the industrialized countries.

Another subject of discussion with the developing countries concerns the renunciation of reciprocal concessions. The discussion about this point will centre on the need for some differentiation between developing countries. If the industrialized countries will show themselves willing to forgo reciprocal concessions for trade advantages in the case of the least developed among the developing countries, this does not necessarily imply that tariff concessions without reciprocal consideration will also be made to the more advanced developing countries. It is only now that initial discussions are being started in the framework of the GATT negotiations about all these questions which will be of considerable importance for the flow of world trade in the next decade.

### The Challenge of the Eighties

The Tokyo round is a yardstick of the political will of the major trading partners in the world to improve further the conditions for the international exchange of goods. In the fifties and sixties GATT was a motive power for world-wide liberalization which caused exports and imports to increase constantly at a higher rate than the production of goods. If this positive trend is to last, the course must be laid now for progressive removal of the trade barriers. The present time is more favourable than any other in recent years. The improved economic situation in the world and the end of the election campaign in the USA offer the necessary conditions to carry the GATT negotiations to a decisive stage in 1977.

Although the risk of protectionist measures by individual countries and thus the danger of regressive moves in the sphere of trade policy cannot be ruled out entirely yet, the positive indicators of closer international cooperation are probably in the ascendant. Final agreement on the tariff cutting formula may, in the absence of unforeseeable developments, be reached in due course. Agreement on one or other international code on non-tariff measures is also feasible. Positive tendencies seem possible in the agricultural sector in addition to the progress made on tropical prod-

ucts. Of crucial importance is finally that the special interests of the developing countries receive consideration. The position of GATT in the concert of international organizations will depend essentially on its response to the demands of the Third World. If the decisive break-through in the negotiations is achieved in 1977, the external economic signals for the eighties will be on green. Freer world trade implies better resource utilization and thus increased prosperity for all economies, above all for those of the developing countries.

The great trading partners in the world bear the main responsibility for the course of the negotiations. Not only selfish reasons but the interests of balanced economic development in the world should prompt them to take their commitment to free trade as seriously as possible. There is hardly any other major economy which depends on foreign trade as much as does the German economy. It therefore makes sense that assistance and support for the Tokyo round is given a high priority in the German economic policy.

### The Euro-American System

Economic and Political Relations between North America and Western Europe

Edited by **Ernst-Otto Czempel** and **Dankwart A. Rustow**

1976. 15,2 x 24 cm, 236 p., bound, DM 48,—  
ISBN 3-593-32159-9

The purpose of this book is to analyze many of the problems that have prevented a more effective and more balanced functioning of the system, especially since it finds itself under increasing pressure because of the changing political and economic world situation.

### Controlling Multinational Enterprises

Problems, Strategies, Counterstrategies

Edited by **Karl P. Sauvant** and **Farid G. Lavipour**

1976. 15,2 x 24 cm, 337 p., bound, DM 65,—  
ISBN 3-593-32101-7

In Part I, it documents the importance of MNEs as allocators of values and weighs their impact on international economic structures. In Part II, it examines some of the major obstacles faced by host countries in their endeavors to pursue a more assertive policy vis-a-vis MNEs. Finally, in Part III, it discusses various policies that have been initiated or that are contemplated to counteract "undesirable" economic, social and political consequences of MNEs.

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